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## First Trust Senior Loan ETF (CAD-Hedged)

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Interim Management Report of Fund Performance  
June 30, 2017

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# **INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE**

## **June 30, 2017**

### **First Trust Senior Loan ETF (CAD-Hedged) (the “First Trust ETF”)**

This interim management report of fund performance contains financial highlights, but does not contain the complete unaudited interim financial report of the First Trust ETF. All references to dollars contained herein are to Canadian dollars.

Securityholders may also contact us to request a copy of the First Trust ETF’s proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosures relating to the First Trust ETF by calling 1-877-622-5552, by writing to us at FT Portfolios Canada Co., 40 King Street West, Suite 3001, Scotia Plaza, Box 312, Toronto, Ontario M5H 3Y2 or by visiting our web site at [www.firsttrust.ca](http://www.firsttrust.ca) or SEDAR at [www.sedar.com](http://www.sedar.com).

### **Forward Looking Statements**

This document may contain forward-looking statements relating to anticipated future events, results, circumstances, performance or expectations that are not historical facts but instead represent beliefs regarding future events. By their nature, forward-looking statements are based on assumptions and are subject to inherent risks and uncertainties. There is significant risk that forward-looking statements will not prove to be accurate. Readers of this document should not place undue reliance on forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the expectations, estimates or intentions expressed or implied in the forward-looking statements. These factors include but are not limited to market and general economic conditions, interest rates, foreign currency exchange rates, the extent of industry sector exposure, the performance of the securities of the issuers held in the portfolio and regulatory developments and the risks detailed in the First Trust ETF’s prospectus. The Manager does not undertake and specifically disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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# First Trust Senior Loan ETF (CAD-Hedged)

## Management Report of Fund Performance

### For the period ended June 30, 2017

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#### **Investment Objective and Strategy**

The fundamental investment objective of **First Trust Senior Loan ETF (CAD-Hedged)** (the “First Trust ETF”) is to provide unitholders with a high level of current income by investing primarily in a diversified portfolio of senior floating rate loans and debt securities, with capital appreciation as a secondary objective. The First Trust ETF invests primarily in senior loans, which are generally rated below investment grade debt. Settlement periods for senior secured loans may be longer than for other types of debt securities, such as corporate bonds. The First Trust ETF is not a substitute for holding cash or money market securities.

To achieve its investment objectives, the First Trust ETF will primarily invest in a portfolio of senior floating rate loans which are generally rated at or below BB+ by Standard & Poor’s, or Ba1 or less by Moody’s Investor Services, Inc., or a similar rating by a designated credit rating organization (as defined in NI 81-102) and debt securities. Under normal market conditions, the First Trust ETF will invest at least 80% of its net assets in senior loans, which may include loans that are not secured by any specific collateral of the borrower, loans that have a lower than first lien priority on collateral of the borrower, loans to foreign borrowers, loans in foreign currencies and other loans with characteristics that the portfolio advisor believes qualify as senior loans. The senior loans included in portfolio often maintain an interest rate duration of less than 90 days; however, the inclusion of LIBOR floors on certain senior loans or other factors may cause interest rate duration to exceed 90 days.

The First Trust ETF will pursue its objectives by seeking senior loans that portfolio advisor believes exhibit the best combination of attractive fundamental credit characteristics and relative value within the senior loan market. The portfolio advisor seeks to assemble a well-diversified portfolio that includes loans of issuers with strong credit metrics, including strong cash flows and effective management teams. The First Trust ETF may invest in floating rate loans of companies whose financial condition is troubled or uncertain and that may be involved in bankruptcy proceedings, reorganizations or financial restructurings.

The First Trust ETF may invest up to 20% of its net assets in other floating rate debt instruments (including floating rate bonds, floating rate notes, money market instruments, floating rate debentures and tranches of floating rate asset-backed securities, structured notes, made to, or issued by, U.S. and non-U.S. corporations or other business entities), other fixed-rate income producing securities (including, without limitations, U.S. government debt securities, investment grade and below-investment grade corporate debt securities), securities of other investment funds, warrants and equity securities and derivatives. The First Trust ETF will generally seek to hedge substantially all of its U.S. dollar currency exposure back to the Canadian dollar.

There are two classes of units offered by the First Trust ETF:

- Common Class (TSX symbol: FSL)
- Advisor Class (TSX symbol: FSL.A)

The inception date of the First Trust ETF was August 28, 2013.

#### **Risk**

The overall risk for the First Trust ETF during the period remains as discussed in the prospectus for the First Trust ETF.

The ability of a company/issuer to pay interest and repay principal are not factors controlled by First Trust ETF management. A company may default on their obligation to repay interest and principal which could impact the value of the holdings in the First Trust ETF or the ability to pay a dividend at or above the current level. Companies may also refinance their existing debt (the First Trust ETF’s holdings) which would also impact the level of income available to pay to shareholders.

The First Trust ETF is suitable for investors seeking a high level of current income and potential for capital gains through exposure to a diversified portfolio of below investment grade debt securities.

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# First Trust Senior Loan ETF (CAD-Hedged)

## Management Report of Fund Performance

### For the period ended June 30, 2017

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#### Results of Operations

The First Trust ETF's total net asset value as of June 30, 2017 was \$218,855,027 or \$19.45 per Common Class unit and \$19.42 per Advisor Class units. The First Trust ETF's total net asset value as of December 31, 2016 was \$150,937,558 or \$19.60 per Common Class unit and \$19.59 per Advisor Class units.

The First Trust ETF paid cash distributions per unit as follows:

<u>Payment Date</u>	<u>FSL</u>	<u>FSL.A</u>
January 9 <sup>th</sup>	\$0.0667	\$0.0575
February 7 <sup>th</sup>	\$0.0667	\$0.0575
March 7 <sup>th</sup>	\$0.0667	\$0.0575
April 7 <sup>th</sup>	\$0.0667	\$0.0575
May 5 <sup>th</sup>	\$0.0667	\$0.0575
June 7 <sup>th</sup>	\$0.0667	\$0.0575

For the period ended June 30, 2017, the First Trust ETF declared cash distributions per unit of \$0.0667 for FSL and \$0.0575 for FSL.A with payment date of July 10, 2017.

The First Trust ETF's Common Class units returned 1.49% and the Advisor Class Units returned 1.08% for the six months ending June 30, 2017, versus a return of 1.22% for the S&P/LSTA Leveraged Loan 100 Index (CAD-Hedged) ("Index"). Unlike the Index, the First Trust ETF's return is net of fees and expenses.

The First Trust ETF held 191 individual positions diversified across 36 industries at the end of the reporting period. The top 10 holdings by issuer accounted for 25.12% of the portfolio. Health Care Providers & Services (14.89%), Hotels, Restaurants & Leisure (10.40%) and Software (8.90%) were the top three industries. By comparison, the First Trust ETF held 177 individual positions across 34 industries with the top 10 holdings comprising 20.73% at December 30, 2016. The portfolio management team uses fundamental credit analysis to select securities for the First Trust ETF.

Equities posted a strong first half, with the S&P 500 Index up 9.34% for the six months ended June 30, 2017. Equity market volatility remained subdued, despite weaker oil prices, while interest rates declined slightly in the first half of the year. Crude oil fell from an intra-year-to-date high of \$54.45 to \$42.53 near the end of the June while the 10-year U.S. Treasury yield, which began the year at 2.44%, touched 2.62% in May and drifted to 2.12% by mid-June, finished the first half of 2017 at 2.304%. Declining yields were a boon to fixed-income, with Investment Grade corporates up 3.88% and high-yield bonds up 4.90%. Moreover, the yield-curve flattened in the first six months of the year, with the difference between 2-year U.S. Treasuries and 10-year U.S. Treasuries falling to 92 bps from 125 bps at December 31, 2016. In our opinion, the primary catalyst for lower rates and a flattening yield curve was a building narrative around weaker inflation data in the U.S. and a view that the Trump Administration's pro-growth policies may be far more difficult to implement than previously anticipated.

#### **Investment Performance**

The First Trust ETF outperformed the benchmark during the period. The First Trust ETFs return is net of fees and expenses. The First Trust ETF's outperformance relative to the Index was driven by the First Trust ETF's underweight position in the oil & gas industry as this sector underperformed during the period, the First Trust ETF's overweight position within the healthcare industry, which outperformed the Index, and the First Trust ETF's allocation towards high-yield bonds, which outperformed senior loans during the period. Additionally, the First Trust ETF's performance relative to the Index benefited from the First Trust ETF's underweight positioning towards higher rated credits, specifically BBB rated and BB rated credits, as they underperformed the Index during the period. During times of market strength, which was experienced for much of the first half of the year, lower quality issuers typically outperform higher quality issuers as investor risk appetite increases. Providing a slight headwind to the First Trust ETF's results was the First Trust ETF's larger than usual cash balance. The higher than usual cash balance was due to the First Trust ETF growing 45.3% over the past six months.

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# First Trust Senior Loan ETF (CAD-Hedged)

## Management Report of Fund Performance

### For the period ended June 30, 2017

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#### Recent Developments

Senior loan spreads over 3-month LIBOR declined 48 bps during the first six months of the year to L+417 bps. This compares favorably to the pre-credit crisis average spread of L+372 bps (December 1997 – June 2007) and is inside the long-term average spread of L+523 bps (December 1997 – June 2017). According to JP Morgan, the senior loan asset class benefitted from \$17.2 billion of inflows into retail mutual funds and exchange traded funds in the first half of 2017. This compares to an outflow of \$6.7 billion during the same period of 2016. The robust demand from investors for senior loans has led to additional refinancing's on the part of senior loan issuers. The refinancing rate has reduced the yield to investors given that the LIBOR increases haven't been enough to offset the spread decline from the refinancing's. We believe that with the potential for additional interest rate hikes on the horizon, LIBOR should continue to migrate higher throughout 2017. Importantly, the default rate for senior loans remains low, at 1.54% and we believe it is likely to remain low given the overall health of the US economy. This is below the long-term average default rate of 3.06% (March 1999 – June 2017).

High-yield bond spreads over U.S. Treasuries tightened by 45 bps during the first six months of year to T+377 bps. While spreads are in fact tight to the historic average (the long-term average spread over U.S. Treasuries is T+588 bps, December 1997 – June 2017), we believe there is room for further tightening given that spreads remain wide of the tight spreads experienced in May 2007 of T+245 bps. Moreover, defaults in the commodity sensitive sectors of the high-yield bond market drove the high-yield default rate up to a recent peak of 3.82% in May 2016, but the rate has since fallen to 1.50%. This is well inside the long-term average default rate of 3.29% (March 1999 – June 2017). We believe the low default rate is reflective of the relatively sound financial condition of most companies and the strong backdrop of a healthy macroeconomic environment.

We remain confident that the favorable backdrop for the macro economy will persist for the near to intermediate term and that we are in a healthy part of the economic cycle to own senior loans and high-yield bonds. We also believe that the current cycle continues to have a long runway. Specifically, we believe senior loans, given their senior secured position in the capital structure, floating interest rate, attractive income and low default rate are well positioned as we move through 2017. We also believe that high-yield bonds should continue to perform well given their mid-cycle valuations and declining default rate.

As we evaluate new investment opportunities, decisions will continue to be rooted in our rigorous bottom-up credit analysis and focus on the opportunities that we believe offer the best risk and reward balance.

#### Related Party Transactions

FT Portfolios Canada Co. is the Manager of the First Trust ETF and is a Canadian affiliate of First Trust Advisors L.P., the investment advisor (the "Advisor") of the First Trust ETF.

Pursuant to terms of the declaration of trust of the First Trust ETF, the Manager provides or arranges for all management, administrative and other services required by the First Trust ETF. The Manager receives a management fee from the First Trust ETF. For further details, please see "Management Fees".

The Manager has retained the Advisor to provide certain services to the First Trust ETF pursuant to an investment advisory agreement. The Advisor receives advisory fees from the Manager out of the management fee.

**First Trust Senior Loan ETF (CAD-Hedged)**  
**Management Report of Fund Performance**  
**For the period ended June 30, 2017**

**Financial Highlights**

The following tables show selected key financial information about the First Trust ETF and are intended to help you understand the First Trust ETF's financial performance for the past four years. The date of inception of the First Trust ETF was August 28, 2013. The information are derived from the First Trust ETF's unaudited interim financial statements for the period ended June 30, 2017, annual financial statements for the years ending December 31, and for the period from since inception to December 31, 2013.

**Net Asset Value per Unit – FSL**

	Jun. 30, 2017	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013 <sup>(a)</sup>
Net asset value, beginning of period/year <sup>(1)</sup>	\$19.60	\$19.02	\$19.89	\$20.12	\$20.00 <sup>(b)</sup>
Increase (Decrease) from operations:					
Total revenue	0.46	0.96	1.10	0.96	0.32
Total expenses	(0.09)	(0.18)	(0.19)	(0.19)	(0.07)
Realized gains (losses) for the period/year	0.88	0.60	(2.22)	(1.14)	(0.71)
Unrealized gains (losses) for the period/year	(1.00)	0.09	1.16	0.82	0.81
Total increase (decrease) from operations <sup>(2)</sup>	\$0.25	\$1.47	\$(0.15)	\$0.45	\$0.35
Distributions:					
From income (excluding dividends)	(0.40)	(0.75)	(0.90)	(0.74)	(0.17)
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	(0.12)	-	(0.02)	(0.02)
Total annual distributions <sup>(3)</sup>	\$(0.40)	\$(0.87)	\$(0.90)	\$(0.76)	\$(0.19)
Net asset value, end of period/year <sup>(4)</sup>	\$19.45	\$19.60	\$19.02	\$19.89	\$20.12

(a) December 31, 2013 does not relate to the full year as the date of inception of the First Trust ETF was August 28, 2013.

(b) Initial offering price

(1) This information is provided as at December 31 and June 30 of the years/periods shown and is prepared under IFRS.

(2) Net asset value and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the period/year.

(3) Distributions were either paid in cash or reinvested in additional units of the First Trust ETF.

(4) This table is not intended to be a reconciliation of beginning to ending net asset value per unit.

**Ratios and Supplemental Data – FSL**

	Jun. 30, 2017	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013
Net asset value (000's)	\$217,690	\$149,762	\$90,331	\$74,589	\$37,217
Number of units outstanding	11,190,000	7,640,000	4,750,000	3,750,000	1,850,000
Management expense ratio <sup>(1)</sup>	0.95%	0.95%	0.94%	0.95%	0.95%
Management expense ratio before waivers or absorption	0.97%	0.97%	0.96%	0.98%	0.95%
Trading expense ratio <sup>(2)</sup>	N/A	N/A	N/A	N/A	N/A
Portfolio turnover rate <sup>(3)</sup>	161.64%	184.19%	134.45%	217.85%	173.72%
Net asset value per unit	\$19.45	\$19.60	\$19.02	\$19.89	\$20.12

(1) Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net asset value during the period/year.

(2) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period/ year.

(3) The First Trust ETF's portfolio turnover rate indicates how actively the First Trust ETF's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the First Trust ETF buying and selling all of the securities in its portfolio once in the course of the period/year. The higher a First Trust ETF's portfolio turnover rate in a period/year, the greater the trading cost payable by the First Trust ETF in the period/year, and the greater the chance of an investor receiving taxable capital gains in the period/year. There is not necessarily a relationship between high turnover rate and the performance of a First Trust ETF.

**First Trust Senior Loan ETF (CAD-Hedged)**  
**Management Report of Fund Performance**  
**For the period ended June 30, 2017**

**Net Asset Value per Unit – FSL.A**

	Jun. 30, 2017	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013 <sup>(a)</sup>
Net asset value, beginning of period/year <sup>(1)</sup>	\$19.59	\$19.01	\$19.88	\$20.10	\$20.00 <sup>(b)</sup>
Increase (Decrease) from operations:					
Total revenue	0.48	1.42	1.12	1.32	0.12
Total expenses	(0.16)	(0.29)	(0.30)	(0.30)	(0.11)
Realized gains (losses) for the period/year	0.87	0.57	(2.21)	(1.14)	(0.27)
Unrealized gains (losses) for the period/year	(1.01)	(0.27)	1.43	0.56	0.53
Total increase (decrease) from operations <sup>(2)</sup>	\$0.18	\$1.43	\$0.04	\$0.44	\$0.27
Distributions:					
From income (excluding dividends)	(0.35)	(0.65)	(0.78)	(0.63)	(0.09)
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	(0.11)	-	(0.02)	(0.07)
Total annual distributions <sup>(3)</sup>	\$(0.35)	\$(0.76)	\$(0.78)	\$(0.65)	\$(0.16)
Net asset value, end of period/year <sup>(4)</sup>	\$19.42	\$19.59	\$19.01	\$19.88	\$20.10

(a) December 31, 2013 does not relate to the full year as the date of inception of the First Trust ETF was August 28, 2013.

(b) Initial offering price

(1) This information is provided as at December 31 and June 30 of the years/periods shown and is prepared under IFRS.

(2) Net asset value and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the period/year.

(3) Distributions were either paid in cash or reinvested in additional units of the First Trust ETF.

(4) This table is not intended to be a reconciliation of beginning to ending net asset value per unit.

**Ratios and Supplemental Data – FSL.A**

	Jun. 30, 2017	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013
Net asset value (000's)	\$1,165	\$1,175	\$1,901	\$1,988	\$2,010
Number of units outstanding	60,000	60,000	100,000	100,000	100,000
Management expense ratio <sup>(1)</sup>	1.66%	1.52%	1.50%	1.51%	1.55%
Management expense ratio before waivers or absorption	1.69%	1.54%	1.52%	1.54%	1.55%
Trading expense ratio <sup>(2)</sup>	N/A	N/A	N/A	N/A	N/A
Portfolio turnover rate <sup>(3)</sup>	161.64%	184.19%	134.35%	217.85%	173.72%
Net asset value per unit	\$19.42	\$19.59	\$19.01	\$19.88	\$20.10

(1) Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net asset value during the period/year.

(2) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period/year.

(3) The First Trust ETF's portfolio turnover rate indicates how actively the First Trust ETF's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the First Trust ETF buying and selling all of the securities in its portfolio once in the course of the period/year. The higher a First Trust ETF's portfolio turnover rate in a period/year, the greater the trading cost payable by the First Trust ETF in the period/year, and the greater the chance of an investor receiving taxable capital gains in the period/year. There is not necessarily a relationship between high turnover rate and the performance of a First Trust ETF.



# First Trust Senior Loan ETF (CAD-Hedged)

## Management Report of Fund Performance

### For the period ended June 30, 2017

#### Management Fees

The First Trust ETF will pay the Manager a management fee equal to 0.85% and, in respect of the FSL.A, an additional amount for a service fee (see “FSL.A Service Fee” below) based on the average daily NAV of the First Trust ETF. The management fee, plus applicable taxes including HST, will be accrued daily and paid monthly in arrears. The Manager may, from time to time in its discretion, waive all or a portion of the management fee charged at any given time.

#### FSL.A Service Fee

The Manager pays registered dealers a service fee equal to 0.50% per annum of the NAV of the Advisor Class Units held by clients of the registered dealer, plus any applicable taxes. The service fee will be calculated and accrued daily and paid quarterly at the end of each calendar quarter.

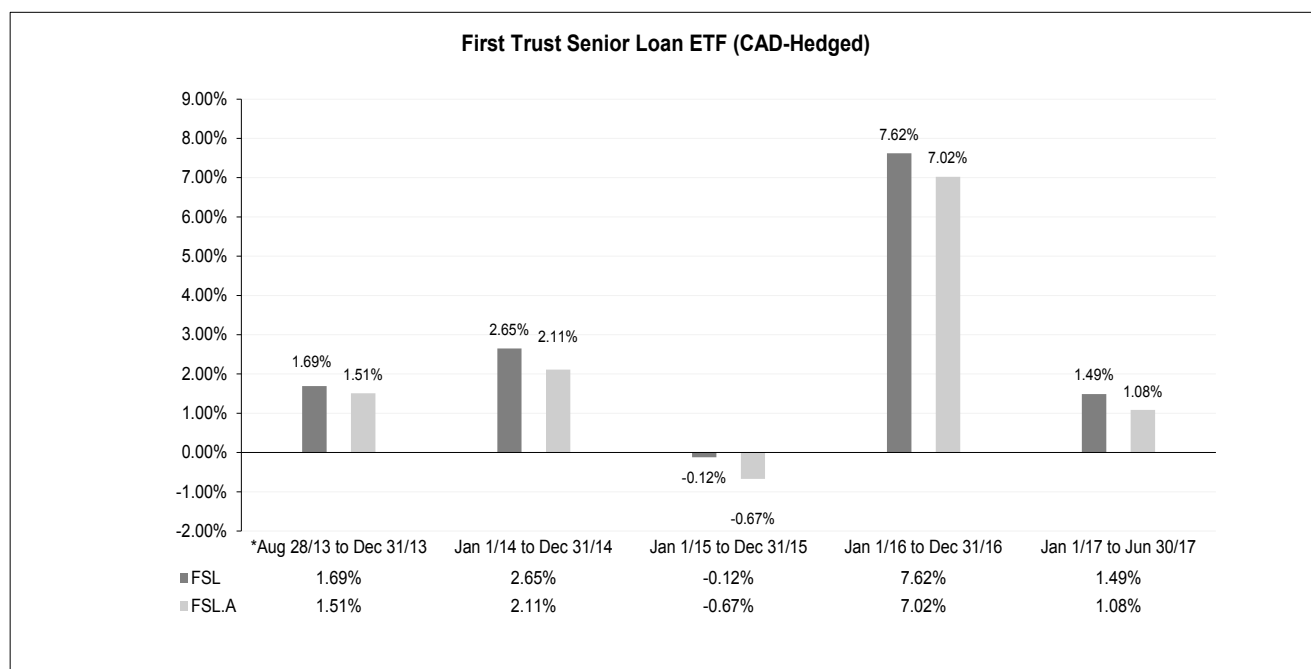
#### Past Performance

##### General

The past performance information shown assumes that all distributions made by the First Trust ETF in the periods shown were reinvested in additional securities of the First Trust ETF. The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. How the First Trust ETF has performed in the past does not necessarily indicate how it will perform in the future.

##### Year by Year Returns

The bar chart below shows the First Trust ETF’s performance, per class, for the six-month period ended June 30, 2017, for the years ended December 31, and for the period from since inception to December 31, 2013 and illustrate how the investment fund’s performance has changed from year to year. The chart also shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year.



\*Date of Inception

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**First Trust Senior Loan ETF (CAD-Hedged)**  
**Management Report of Fund Performance**  
**For the period ended June 30, 2017**

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**Summary of Investment Portfolio**

The table sets out the percentage (based on total net asset value) of the First Trust ETF's top 25 holdings, by issuer, as at June 30, 2017. This summary of portfolio holdings may change due to ongoing portfolio transactions of the First Trust ETF. A quarterly update is available at [www.firsttrust.ca](http://www.firsttrust.ca).

Top 25 Issuers	% of ETF Total Net Asset Value
Valeant Pharmaceuticals International, Inc.	2.94%
Caesars Entertainment Resort Properties LLC	2.94%
MultiPlan, Inc. (MPH Acquisition Holdings LLC)	2.91%
Caesars Growth Partners LLC	2.63%
Vistra Energy Corp. (TXU/TEX/TCEH)	2.63%
BMC Software Finance, Inc.	2.52%
Tenet Healthcare Corp.	2.39%
Gardner Denver, Inc.	2.06%
CHS/Community Health Systems, Inc.	2.06%
Univision Communications, Inc.	2.03%
Energy Future Intermediate Holding Co.	1.98%
Amaya Holdings B.V.	1.96%
Information Resources, Inc.	1.55%
AlixPartners LLP	1.51%
Pharmaceutical Product Development, Inc.	1.48%
Reynolds Group Holdings, Inc.	1.45%
BJ's Wholesale Club, Inc.	1.44%
Century Link (Qwest)	1.33%
Asurion LLC	1.30%
Advantage Sales & Marketing, Inc.	1.27%
Brickman Group Holdings, Inc	1.27%
Ortho-Clinical Diagnostics, Inc. (Crimson Merger Sub, Inc.)	1.24%
Portillo's Holdings LLC	1.20%
Albertsons LLC	1.11%
Quikrete Holdings, Inc.	1.08%

**Portfolio Breakdown**

The table sets out the percentage (based on total net asset value) of the First Trust ETF's portfolio, by sector, as at June 30, 2017.

Sector Weightings	% of ETF Total Net Asset Value
Health Care	27.28%
Consumer Discretionary	18.51%
Information Technology	13.01%
Industrials	11.22%
Financials	6.16%
Consumer Staples	6.00%
Energy	5.64%
Materials	2.06%
Telecommunication Services	0.67%
Real Estate	0.19%
Cash & Cash Equivalents	12.66%

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**First Trust Senior Loan ETF (CAD-Hedged)**  
**Management Report of Fund Performance**  
**For the period ended June 30, 2017**

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The table sets out the percentage (based on total net asset value) of the First Trust ETF's portfolio, by credit rating, as at June 30, 2017.

S&P Rating	% of ETF Total Net Asset Value
BBB	0.00%
BBB-	3.45%
BB+	4.39%
BB	4.24%
BB-	22.40%
B+	20.14%
B	19.58%
B-	7.31%
CCC+	5.87%
CCC	0.69%
CCC-	0.00%
CC	0.00%
C	0.00%
D	0.58%
NR	2.08%

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